

WHITE PAPER

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Internet Portals Forging New Government-Private Sector Procurement Partnerships

Overview

The increasing use of the Internet as a platform for communication, e-commerce and procurement is paving the way for a new partnership between branches of the U.S. government and the commercial sector. Today, the government is reviewing its procurement practices and related legacy systems and merging this analysis with its plans for using the Internet as a communications platform and as a procurement vehicle. Research firm Gartner estimates that by 2003, 60% of local, state and federal agencies could be participating in Internet procurement and that online government spending could climb to more than \$6.5 billion annually by 2005.

At the same time, the Internet is proving to be the medium of choice for corporate communication networks as well as the platform of choice for commercial electronic marketplaces that are beginning to show significant acceptance among buyers and sellers. It is only natural that the government is turning to commercial partners to aid in the expansion of the opportunities created by the new generation of Internet technology. When implemented effectively, these partnerships save the government and taxpayers significant amounts of money, speed government communication and accelerate the development and time-to-market of e-commerce-based procurement systems.

Government Agencies and Internet-Based Portals

In the area of Internet-based procurement, branches of the U.S. government are developing large software-based initiatives, or portals, which provide Web-based information and commerce centers for discrete sets of users. For example, the U.S. Navy has created its "One Touch Portal," which serves as the electronic gateway for all naval personnel. Through this password-protected portal, service people are able to search for new housing, check assignments, and purchase essentials. This platform is being developed with prepackaged software

and consulting services from such vendors as IBM, Ariba, and Vignette. For the most part, the relationship between these vendors and the U.S. Government is a traditional one in that the commercial project manager and subcontractors are defined and paid based on traditional software pricing--set-up fees, maintenance fees and consulting fees. The Navy sponsors are now working with these vendors to define the more customized parts of the portal.

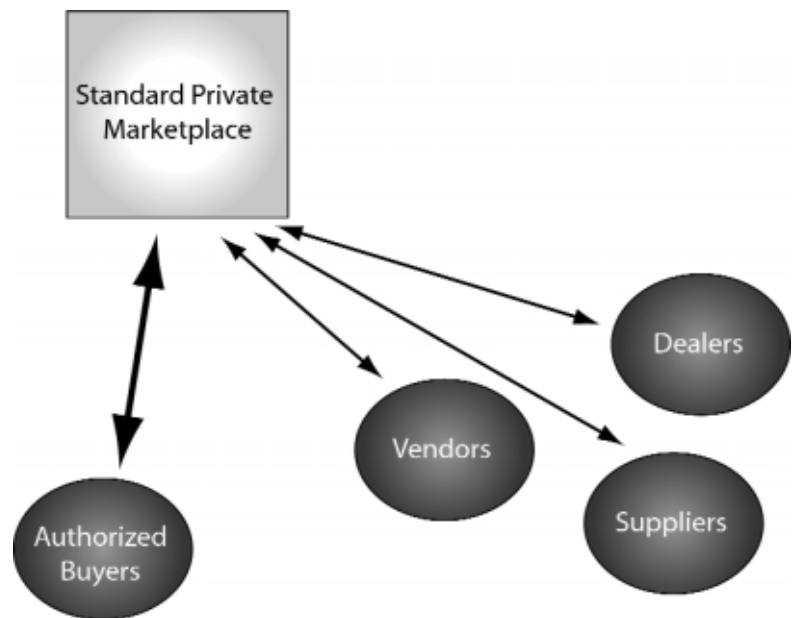


Figure 1

Of particular note is that these software-based contracts for portals and intranets are different than the software contracts let in the past. Before the advent of the Internet as a platform and attendant software technology, the government often contracted for highly customized versions of enterprise software that did not resemble anything in the commercial marketplace. One branch would select proprietary systems software that was completely different than that selected elsewhere. This was not only more expensive but also led to incompatibilities between software makers and government-funded platforms.

On the other hand, the new Internet-based software being used for projects such as the "One Touch Portal" is compatible with similar Internet-based procurement systems that are popping up all over the commercial sector. By using more standard software, the sponsoring government agency is creating an opportunity to partner with commercial organizations and extend the portals into extremely sophisticated areas of procurement. Hence, each of these government-sponsored portals has an opportunity to extend to specific "plug and play" style e-commerce marketplaces to complement the superstructure presented by the portal.

There are many examples of portals similar to the Navy's "One Touch" currently under development that will provide "plug and play" compatibility. For example, the U.S. Air force is creating "My.Airforce" which uses technology provided by Broadvision and Verity. Similarly, CommerceOne, another software provider, is serving as the software of record behind several U.S. government projects for the Post Office, NASA, the National Library of Medicine and the USDA. Ariba, the software behind the Navy's "One Touch" also serves as the commerce platform for the U.S. Department of Energy's Internet-based procurement efforts, and many other local government projects.

Theoretically, if the Department of Defense wanted to create a specific e-commerce marketplace around a type of equipment, and if they specified that the design of the marketplace needed to be compatible with the software provided by vendors such as Ariba and CommerceOne, the marketplace could

"link" directly with all the initiatives listed above without the need to build separate marketplaces for each portal. Such compatibility already exists on the commercial sector as a matter of practice for many electronic marketplaces.

Procuring Specialized Technical Equipment in the U.S. Government

Over the last 20 years the government has moved away from stocking vast amounts of technical equipment to more just-in-time (JIT) procurement practices. Nowhere is this more evident than in the purchasing of sophisticated electronic technical equipment from the original equipment manufacturers (OEMs). Rather than ordering units by the hundreds and having them sit in large warehouses, the government's inventory control points are aggregating demand and then placing orders on behalf of its customers. As a result, the customer, such as an end-user or procurement specialist, may place an order for as few as one item against an existing OEM contract. This change in practice is complemented by a new government procurement practices where federal agencies are focusing on fewer highly customized product sets, and instead, are letting contracts for product versions that more closely resemble their commercial-off-the-shelf (COTS) cousins. By doing so, they are providing the OEM with more flexibility to accommodate JIT and smaller order sizes.

As these initiatives come online, the need to streamline the JIT procurement of these sophisticated electronic goods becomes more important. If the product is no longer going to be available through a government-controlled inventory point, the government needs reasonable visibility into the OEM's ability to produce the products in an acceptable timeframe and to follow a more complex set of logistics and support instructions. Before the advent of the Internet as a procurement and communications platform, commercial and government organizations turned to EDI-type connections to accommodate more sophisticated electronic procurement and communication. The problem with these EDI interfaces is that the costs are high, the set-ups cumbersome and intricate, and on-going support increasingly difficult. In addition, these initiatives typically need to run through a centralized procurement facility or inventory control point and require significant logistics support. In the government sector, MILSTRIP and FEDSTRIP payment methods were modified to help with this process rather than being replaced. Importantly, each of these EDI set-ups is stand-alone and is not "portable" to other areas of the government or between OEMs.

As the Internet becomes ubiquitous for procurement,

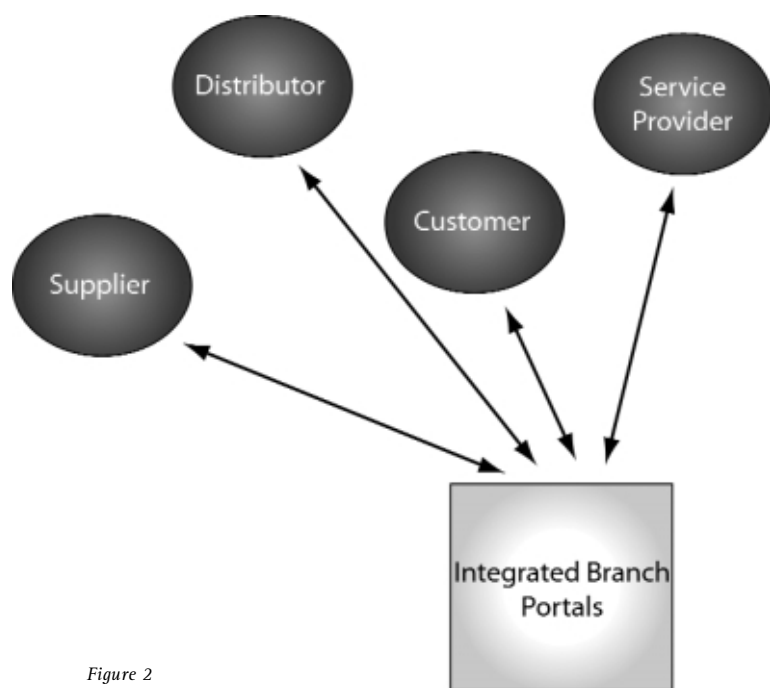


Figure 2

OEM connections are taking place on the Internet more frequently. The advantages of this are numerous and include the ability for anyone with a secure Internet browser to place orders directly with the OEM. This results in significantly reduced costs and more robust trading environments that may now include online catalogs and other content. This initiative also better complements the government-wide purchase card initiative, which is a way of decentralizing procurement practices even further.

The Stage is Set for More Specific Commercial/Government E-Commerce Sites

The government is progressing towards Internet-based portals that rely on commercial software packages and making strong advances towards more efficient -- and decentralized-- procurement practices especially in the area of sophisticated electronic equipment. The combination of these factors has created an opportunity for the development of many Internet-based e-commerce marketplaces or procurement sites that deal with highly complex electronic products. The opportunity is particularly attractive to make these marketplaces compatible with one or more of the "standard" software platforms that are being adopted for the larger portal initiatives discussed above.

One type of marketplace development effort that is in use by branches of the U.S. Government is the adoption of a modified version of a commercial organization's existing e-commerce marketplace for use by a government agency. In addition, the government is structuring unique partnerships to not only adopt the technology, but also to leverage the marketing expertise of the commercial entities to help make the marketplaces well trafficked and of high enough quality to encourage repeat business.

In these new partnerships, costs are kept low because of the already existing technology platform. Time-to-market for a portal is significantly faster than if the government entity decided to build and host these marketplaces themselves. Upgrades to security and software are more easily made. Compatibility with existing or future portal initiatives is clearly possible and significantly easier to do and at a lower cost than ever before.

Here's how it works. The government brings established and deeply discounted contract relationships with its key suppliers to the partnership. The government provides guidance on who can buy and the rules for purchase. The commercial entity brings the technology platform, the e-commerce system (including the payment technology), prepackaged content

and search functionality as well as traffic building and market development skills. Fixed expenses are significantly lower than for typical software and service contracts as the commercial partner has already developed many of the tools in advance. Therefore, the commercial partner is generally more willing to risk share with the government instead of looking to the government as a source of fixed income. In such cases the commercial partner operates on a transactional fee basis. In this case, both parties have a vested interest in the success of the marketplace.

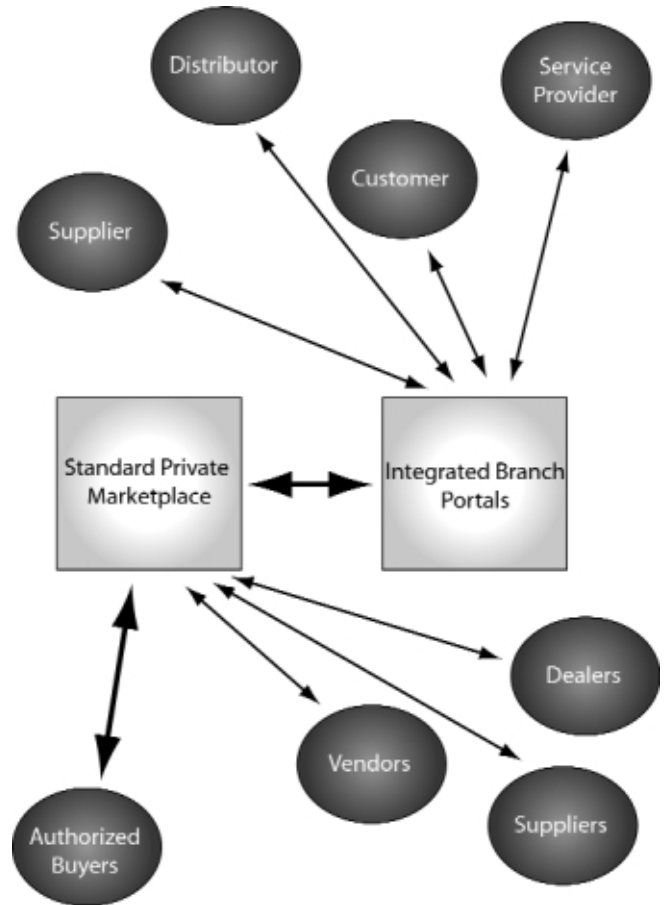


Figure 3: IDC, a market-research firm estimates that the emerging Web-based government procurement market will handle a staggering \$70 billion worth of transactions by 2003.

The success of these new partnership markets is predicated on five factors:

- **Proven competence of the technology and content of the commercial marketplace operator**

One of the keys to the success of these partnerships is to make sure that the government is partnering with a commercial entity that is already a proven operator of a marketplace similar to that which the government desires. The commercial partner must have pre-existing, relevant content. In addition,

the commercial entity should have a proven track record hosting, operating, and maintaining security on a commercial-grade e-commerce Web site. Included should be reporting tools and an ability to screen users for best practices. On the commerce front, the commercial organization should already have the ability to process the types of financial transactions required by the government such as purchase or credit cards, purchase orders, and so forth.

- **Proven Ability to Generate Usage**

The ultimate success of this new breed of government sponsored e-commerce marketplace is the ability to generate usage. As the government currently has significantly varying procurement practices that overlap and contradict there is no strict enforcement by any government entity on procurement rules. Therefore, government employee participation in any electronic marketplace is strictly voluntary. The job of creating awareness, promoting the value and generating traffic and commerce, therefore, falls squarely on the partner. In many cases, while the sponsoring government agency can provide access to a discrete group of potential users and will always provide the catalog content (i.e. the list of products, prices and terms and rules of participation), the job of marketing may rest with the commercial partner.

- **Participation of all trading partners**

In order for the procurement marketplace to work effectively all trading partners need participate, but also need to understand the specific benefit of working with the marketplace operator instead of directly through the government agency.

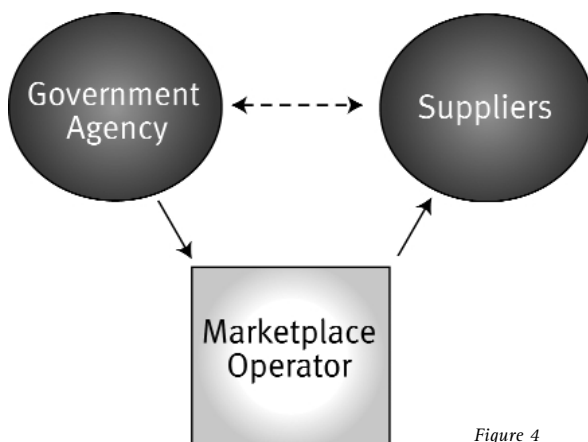


Figure 4

This relationship matrix looks like this:

In this diagram, the pricing, quantity and delivery negotiation is done directly between the government and the OEMs. However, the logistics and order placement runs through the marketplace.

- **Flexible Architecture**

As discussed earlier in this paper, one of the unique benefits of this type of partnership is that if the correct commercial marketplace vendor is selected, the marketplace itself can "easily" integrate into other portal initiatives as a punch-out partner. What this means is that major parts of the Web site software will not have to be rewritten to participate in any broader government portal initiatives.

- **Clear Value Statement**

It is extremely important that both partners create a marketplace that provides value to the intended audience. The commonly accepted value points are price (i.e. better prices than through other procurement options), delivery, ease of use, flexibility in payment types or terms, technical support, great research devices, etc.

Summary

Clearly, the Internet is having a profound effect on the way that the government disseminates information and procures goods and services. In the area of Internet-based portal and marketplace initiatives the government is migrating to flexible Internet-based solutions and new types of partnerships with the commercial sector for reducing costs, speeding delivery and increasing the effectiveness of these critical projects.